



STATE OF UTAH INSURANCE DEPARTMENT

REPORT OF FINANCIAL EXAMINATION

of

**STEWARD HEALTH CHOICE UTAH, INC.**

of

South Jordan, Utah

as of

December 31, 2018



## TABLE OF CONTENTS

SALUTATION .....	1
SCOPE OF EXAMINATION .....	1
SUMMARY OF SIGNIFICANT FINDINGS AND RECOMMENDATIONS .....	2
HISTORY OF THE ORGANIZATION .....	2
General .....	2
Dividends and Capital Contributions .....	2
Mergers and Acquisitions .....	3
MANAGEMENT & CONTROL INCLUDING CORPORATE GOVERNANCE ....	3
Board of Directors .....	3
Officers .....	3
Committees .....	4
Holding Company .....	4
Holding Company Organizational Chart .....	4
Transactions and Agreements with Affiliates .....	5
TERRITORY AND PLAN OF OPERATION .....	5
REINSURANCE .....	5
Assumed .....	5
Ceded .....	5
GROWTH OF ORGANIZATION .....	5
FINANCIAL STATEMENTS .....	7
ASSETS, LIABILITIES, CAPITAL AND SURPLUS .....	7
STATEMENT OF REVENUE AND EXPENSES .....	8
RECONCILIATION OF CAPITAL AND SURPLUS .....	9
ANALYSIS OF CHANGES AND COMMENTS ON FINANCIAL STATEMENTS .....	10
SUBSEQUENT EVENTS .....	10
ACKNOWLEDGEMENT .....	10

November 8, 2019

Honorable Todd E. Kiser, Commissioner  
Utah Insurance Department  
3110 State Office Building  
Salt Lake City, Utah 84114

Commissioner:

Pursuant to your instructions and in compliance with statutory requirements, an examination, as of December 31, 2018, has been made of the financial condition and business affairs of:

Steward Health Choice Utah, Inc.  
South Jordan, Utah

hereinafter referred to in this report as the "Organization" and the following report of examination is respectfully submitted.

### **SCOPE OF EXAMINATION**

The last financial examination of the Organization was as of December 31, 2015. The current examination is a full scope examination covering the period from January 1, 2016 through December 31, 2018, including any material transactions or events occurring subsequent to the examination date and noted during the course of the examination.

We conducted our examination in accordance with the risk-focused examination approach as prescribed by the National Association of Insurance Commissioners *Financial Condition Examiners Handbook* ("Handbook"). The Handbook requires that we plan and perform the examination to evaluate the financial condition of the Organization and its holding company system. In addition, the purpose of the examination is to assess corporate governance, identify current and prospective risks that could cause the Organization's surplus to be materially misstated, and evaluate controls and procedures used to mitigate those risks. The examination also includes assessing the principles used and significant estimates made by management, as well as evaluating management's compliance with Statutory Accounting Principles and annual statement instructions. The examination, however, does not attest to the fair presentation of the financial statements included herein. If, during the course of the examination, an adjustment was identified, the impact of such adjustment will be documented separately following the Financial Statements section of this report. The examination was conducted by representatives of the Utah Insurance Department ("Department").

Workpapers of the Organization's independent auditors, Ernst & Young, LLP, were reviewed and relied upon whenever possible and applicable to assist in the completion of examination procedures.

## **SUMMARY OF SIGNIFICANT FINDINGS AND RECOMMENDATIONS**

- During the prior examination, the Organization's custodial agreements were out of compliance with Utah Admin. Code R590-178. The recommendation from the prior exam was implemented with Bank of America, National Association, on July 29, 2019.
- Utah Admin. Code R590-254-6 requires that if the CPA for the immediately preceding audited financial report is dismissed or resigns, notification must be provided to the Department within five days of the change.

The Organization did not notify the Department until four months after the change of its CPA.

- Ruben King-Shaw was appointed as Director on December 5, 2018, but was not listed on the Jurat Page of the 2018 Annual Statements, nor any of the 2019 Quarterly Financial Statements. Karen H. Abbott & John Oaks were removed from the Jurat Page as of December 31, 2018, but no resignation letters could be located.
- The unpaid claims liability as of December 31, 2018, was understated by \$856,000. The adjustment of the liability decreased the Organization's Capital and Surplus from \$14,718,321 to \$13,862,321. The examination did not recommend refiling of the 2018 Annual Statements, but a target review of the unpaid claims liability for 2019 and 2020 was recommended. (See ANALYSIS OF CHANGES IN FINANCIAL STATEMENTS).

## **HISTORY OF THE ORGANIZATION**

### General

On December 5, 2011, the Organization was incorporated under the laws of the state of Utah, and commenced operations on March 1, 2012. It was a wholly owned subsidiary of IASIS Healthcare, LLC ("IASIS"), a healthcare services organization. IASIS also owned and operated Health Choice Management Company, a third party administrator that manages multiple health plans, accountable care networks and managed care solutions.

Effective, September 29, 2017, Steward Health Care System, LLC, ("Steward"), a Delaware limited liability company, acquired IASIS, and upon completion of the acquisition, the Organization changed its name to Steward Health Choice Utah, Inc.

The Organization operates as a health maintenance organization that provides comprehensive health care services to Medicaid enrollees under contracts with the Utah Department of Health. As of December 31, 2018 the Organization had nearly 19,000 members.

### Dividends and Capital Contributions

The Organization neither declared nor paid dividends during 2016 or 2017. During 2018 the Organization paid an extraordinary dividend of \$2,768,340 which was approved by the Department.

The Organization received capital contributions of \$199,000 and \$3,551,000 during 2016 and 2017, respectively. There were no capital contributions during 2018.

#### Mergers and Acquisitions

On September 29, 2017, Steward acquired IASIS. As a result of the acquisition, Steward oversees 36 individual hospitals across ten states, and managed care operations in Arizona, Massachusetts, and Utah.

See also SUBSEQUENT EVENTS.

### **MANAGEMENT & CONTROL INCLUDING CORPORATE GOVERNANCE**

#### Board of Directors

The Organization's bylaws state that the number of Directors shall be no less than three.

The following persons served as Directors of the Organization as of December 31, 2018:

<b>Name and Location</b>	<b>Primary Occupation</b>
Jason Worthen West Jordan, Utah	Chief Executive Officer Steward Health Choice Utah, Inc.
Dale Johns Kaysville, Utah	President Salt Lake Regional Medical Center
Michael Jensen Kaysville, Utah	President Davis Hospital & Medical Center
Troy Smith Scottsdale, Arizona	President Steward Health Choice, Health Plan Division
Ruben King-Shaw Carlisle, Massachusetts	Chief Strategy Officer Steward Healthcare System, LLC

- Jeff Butcher replaced John Doyle on the Board on July 12, 2016.
- Larry Hancock replaced Ed Lamb as a Director on December 13, 2016.
- Michael Uchirin resigned as a Director on May 16, 2018.
- Larry Hancock and Steven Anderson resigned as Directors on August 8, 2018.
- Troy Smith and Jason Worthen were appointed as Directors on August 8, 2018.
- Ruben King-Shaw was appointed as a Director on December 5, 2018.
- Karen H. Abbott & John Oaks were not listed as Directors on the Jurat Page but no resignation letters could be located.

#### Officers

The following persons served as officers of the Organization as of December 31, 2018:

<b>Name</b>	<b>Title</b>
Jason Worthen	Chief Executive Officer
Ruben King-Shaw	President
John Doyle	Treasurer
William Stokes	Senior VP

- Jeff Butcher replaced John Doyle as Treasurer on July 12, 2016.
- Chris Chi was appointed as Secretary on December 13, 2016.
- Sean Tussey resigned as Assistant Treasurer on February 7, 2018.
- Michael Uchirin resigned as President on March 16, 2018.
- Jeff Butcher resigned as an officer on August 8, 2018.
- Ruben King-Shaw was appointed as an officer on December 5, 2018.
- Karen H. Abbott, Eric Paul, Stacy McLaughlin, and Chris Chi were no longer listed as Officers on the Jurat Page but no resignation letters could be located.

### Committees

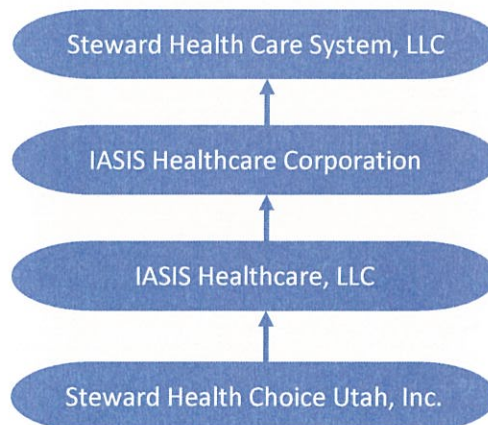
All committees are maintained by an affiliated management company, Steward Health Choice Management Company (“SHCMC”).

### Holding Company

The Organization is part of a holding company system as defined in Utah Code § 31A-16. There are numerous companies within the holding company system, which were not included in the organizational chart below.

### Holding Company Organizational Chart

The organizational chart below reflects the ownership of the Organization:



### Transactions and Agreements with Affiliates

The Organization entered into a management agreement with SHCMC. Pursuant to the terms of the Agreement, SHCMC provides general and administrative functions to the Organization, in exchange for a flat fee of 8% of revenues. Fees paid to SHCMC at December 31, 2018 was \$4,868,672.

The Organization is also party to a tax allocation agreement with IASIS. Pursuant to the terms of the Agreement, the Organization will pay the amount of federal and state tax liabilities for that year, computed as though tax returns were filed separately.

## **TERRITORY AND PLAN OF OPERATION**

The Organization is a licensed HMO that provides comprehensive health care services to Medicaid enrollees under contracts with the state of Utah. The Organization contracts with independent physician associations, hospitals, and providers to provide medical services to its members. As an HMO, the Organization is at risk for all outpatient and inpatient claims incurred by its beneficiaries. As of December 31, 2018, the Organization served approximately 19,000 members within the state of Utah.

## **REINSURANCE**

### Assumed

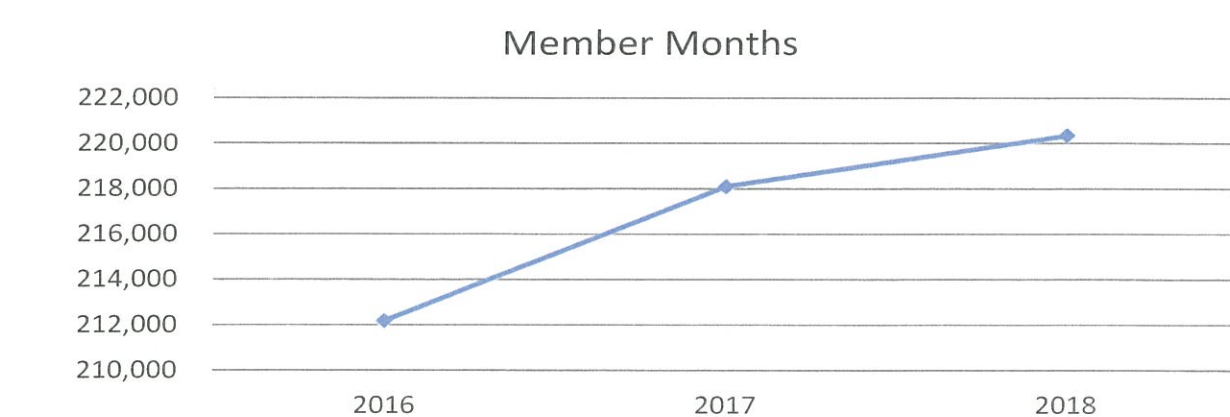
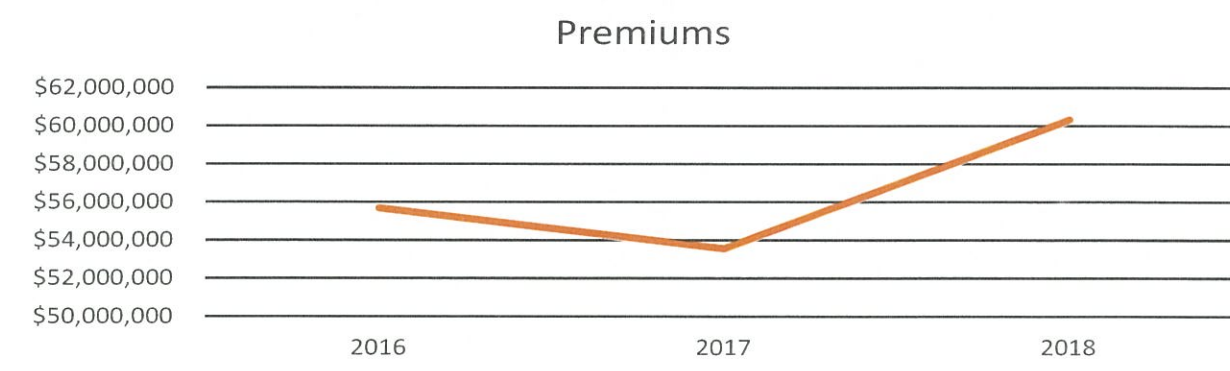
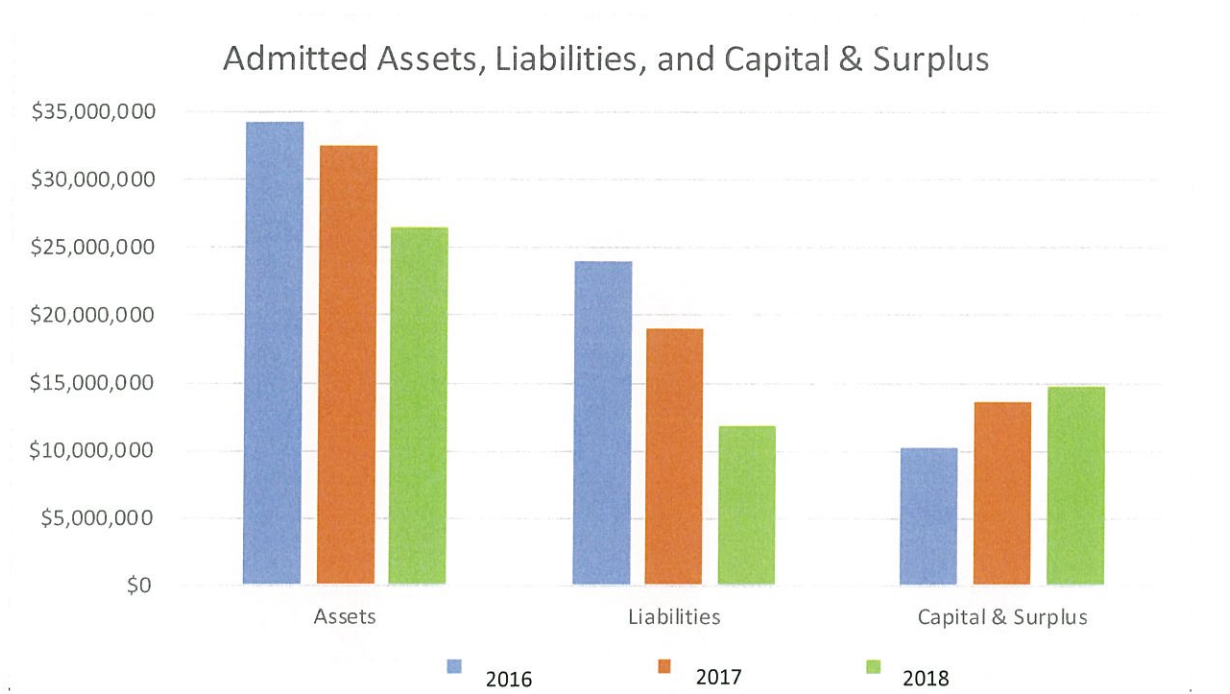
The Organization did not have any assumed reinsurance.

### Ceded

As of the examination date, the Organization had an excess of loss reinsurance agreement with American National Insurance Company, in which the reinsurer is liable for 90% of the ultimate net loss in excess of the Organization's retention of \$200,000. Maximum payable per covered person per the annual agreement term is \$2,000,000. Similar reinsurance arrangements with another reinsurer were in place for the years 2017 and 2016.

## **GROWTH OF ORGANIZATION**

The Organization experienced continued growth of its capital and surplus, driven by an overall increase of member months and annual premiums. Its financial condition remains to be strong, as reflected in the following graphs:



Sources: 2016-2018 Annual Statements



## FINANCIAL STATEMENTS

The following financial statements are based on the statutory annual statement filed by the Organization with the Department and present the financial condition of the Organization for the period ending December 31, 2018. The accompanying comments on the financial statements reflect any examination adjustments to the amounts reported in the annual statement and should be considered an integral part of the financial statements.

### STEWARD HEALTH CHOICE UTAH, INC. ASSETS, LIABILITIES, CAPITAL AND SURPLUS as of December 31, 2018

		<u>Notes</u>
<b>ASSETS</b>		
Cash, cash equivalents and short-term investments	\$ 22,199,626	
Uncollected premiums and agents' balances	3,973,294	
Net deferred tax asset	97,974	
Healthcare and other amounts receivable	<u>174,976</u>	
Total Assets	<u>\$ 26,445,870</u>	
<b>LIABILITIES</b>		
Claims unpaid	\$ 9,523,848	(1)
Unpaid claims adjustment expenses	223,518	
Amounts withheld or retained for the account of others	1,400,784	
Amounts due to parent, subsidiaries, and affiliates	1,407,345	
Reinsurance payable	<u>28,054</u>	
Total Liabilities	12,583,549	
<b>CAPITAL AND SURPLUS</b>		
Gross paid in and contributed surplus	11,260,000	
Unassigned surplus funds	<u>2,602,321</u>	(1)
Total Capital and Surplus	<u>13,862,321</u>	
Total Liabilities, Capital and Surplus	<u>\$ 26,445,870</u>	

STEWARD HEALTH CHOICE UTAH, INC.  
STATEMENT OF REVENUE AND EXPENSES  
for the Year Ended December 31, 2018

REVENUE:

Net premium income	\$ 60,277,088
Total Revenue	<u>60,277,088</u>

HOSPITAL AND MEDICAL

Hospital and medical benefits	38,897,692
Emergency room and out-of-area	2,617,515
Prescription drugs	7,059,612
Durable medical equipment	64,167
Subtotal Hospital and Medical	<u>48,638,986</u>
Net reinsurance recoveries	<u>(342,116)</u>
Total Hospital and Medical	<u>48,296,870</u>

LESS:

Claims adjustment expenses, including cost containment expenses	1,956,292
General and administrative expenses	4,430,380
Total underwriting deductions	<u>54,683,542</u>
Net underwriting gain	<u>5,593,546</u>

Net income after capital gains tax and before all other federal  
income taxes

	<u>5,593,546</u>
Federal and foreign income taxes incurred (excluding capital gains tax)	<u>1,252,148</u>
Net Income	<u>\$ 4,341,398</u>

STEWARD HEALTH CHOICE UTAH, INC.  
RECONCILIATION OF CAPITAL AND SURPLUS  
2016 through 2018

	2016	2017	2018	Notes
Capital and Surplus, December 31, prior year	\$ 6,046,292	\$ 10,185,151	\$ 13,520,827	
Net income / (loss)	(1,201,000)	2,768,341	4,341,398	
Change in net deferred income tax	289,859	(337,272)	(153,871)	
Change in nonadmitted assets	(813,886)	705,607	(221,693)	
Change in surplus adjustment	3,551,000	199,000	-	
Prior examination claim reserve adjustment recapture	2,312,886	-	-	
Exam adjustment for unpaid claim reserves	-	-	(856,000)	(1)
Dividend to stockholders	-	-	(2,768,340)	
Net change in Capital and Surplus for the year	4,138,859	3,335,676	341,494	
Capital and Surplus, December 31, current year	<u>\$ 10,185,151</u>	<u>\$ 13,520,827</u>	<u>\$ 13,862,321</u>	

\* Per the regulatory financial statements filed with the Utah Insurance Department

## **ANALYSIS OF CHANGES AND COMMENTS ON FINANCIAL STATEMENTS**

- (1) The examination actuary concluded that the Organization's unpaid claims reserve was understated by \$856,000. The adjustment of the reserve by the examination actuary increased the claims unpaid liability from \$8,667,848 to \$9,523,848 and decreased the capital and surplus from \$14,718,321 to \$13,862,321.

The Organization indicated the reserve process was changed after the completion of 2018 Annual Statements. With that assertion, the examination actuary reviewed the second quarter 2019 unpaid claims liability, and noted no issue. As a result of this conclusion, we did not recommend the Organization refile the 2018 Annual Statements. However, the examination recommended to the Department a target review of the unpaid claims liability for the Annual Statements filings of 2019 and 2020.

## **SUBSEQUENT EVENTS**

Two affiliated companies, Steward Health Choice Arizona, Inc., and Steward Health Choice Management Company, were announced to be acquired, pending regulatory approval, by Blue Cross Blue Shield of Arizona.

## **ACKNOWLEDGEMENT**

Peggy Hermann, FSA, MAAA, and Frank Edwards, ASA, MAAA, of INS Consultants, Inc., reviewed the actuarial portion of the examination. Brian Menard, CFE, CISA, FLMI, and Kristina Gaddis, CFE, CISA, AES, of Risk & Regulatory Consulting, LLC, reviewed the Organization's Information Systems. Malis Rasmussen, MSA, CFE, SPIR, Chief Examiner, Utah Insurance Department, supervised the examination. They join the undersigned in acknowledging the assistance and cooperation extended during the course of the examination by officers and representatives of the Organization.

Respectfully Submitted,



Michael J. Porter, CFE, APIR  
Examiner-in-Charge  
Utah Insurance Department